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Theories of Capitalism Put to the Test: Introduction to a Debate on Central and Eastern Europe

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Abstract: *»Kapitalismustheorien auf dem Prüfstand. Eine Einführung in die Debatte um Mittel- und Osteuropa«*. The present debate on the varieties of capitalism in Central and Eastern Europe is marked by two different theoretical strands, both of which highlight the integration of the region into overarching discourses, and the end of the transformation research which has been current until now. On the one hand, the attempt has been underway with some time to apply the Varieties-of-Capitalism (VoC) approach; on the other hand, the dependency and world-system theory is undergoing a renaissance, and taking a critical stance vis-à-vis VoC. But the strengths and weaknesses of both strands can be seen as complementary. East Germany no longer plays a role in this discussion, since it is a debate related to nation-state entities. In the concluding part of this paper, an attempt is made to show that despite no longer being a national economic unit, the consideration of the new East German states is still a useful exercise. Their integration into the world economy can be read as an extreme "dependent market economy" case, and helps us at the same time to understand the regional dimension of the debate.

Keywords: Varieties of capitalism, dependency and world-system theory, Central and Eastern Europe, East Germany.

Introduction

Up until the start of this millennium, the discussion on the changes taking place in western capitalism and research on the emerging market economies in Central and Eastern Europe ran along very separate lines. For a long time, the process of transformation from planned economy to market economy was considered as so particular that it seemed not to fit any "western" categories. Rather, it was discussed in terms of older theories and concepts, such as Weber's notion of "political capitalism", introduced by Jadwiga Staniszkis in 1990 as one of the first interpretations of the transformation processes using theories of capitalism. But the situation has changed completely now as the transition is officially over, at least for the new EU member states (World Bank 2008, 42); in recent years, an exciting merging of discourses can be observed, in which Central and Eastern Europe are not only test sites for existing western theories,

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but are offering conceptual challenges to any simple transposition or application of these frameworks.

Two theoretical strands are of particular importance here. Firstly, that of the attempt to apply the "Varieties-of-Capitalism" (VoC) approach, which began around the time of the Central European countries' entry into the EU. It was no coincidence that scholars at the same time began to work with the dependency and world-system theory. This was in part a completion but also in part a sharp critique of the attempt to apply the VoC approach. The coexistence and competition of the two theoretical strands is indicative of a fundamental dispute on the results of the transformation in Central and Eastern Europe (and beyond), in which at present dependency theory seems to hold the upper hand. This is due not only to the existing inconsistencies and contradictions in the application of the VoC approach to Central and Eastern Europe, but also to the fact that it has little to offer to the analysis of the effects of the financial crisis in the region. Dependency theory explanations, on the other hand, do have something to offer here, as will be shown by the following contributions to this volume. Nevertheless, the explanatory strengths of both theories are complementary and therefore not simply substitutable one for the other. Indeed, it is possible that explanations based on the dependency theory are facing a turning point, which may lead to a deeper integration of the two perspectives.

In my contribution to the debate, I want to characterize the two strands, thereby working through the fundamental dispute and showing that Central and Eastern Europe provides for both, in different ways, a difficult, but stimulating, test case, as it exposes their respective strengths and weaknesses.

While in transformation research East Germany was still a topic for comparison, these two theoretical strands show little interest in the German region, which is understandable given that both the VoC approach and dependency theories are aimed at entities based on the national state, which in the East German case was dissolved with German reunification. I will nonetheless pose the question as to whether and to what extent East Germany fits the debate I outline in the paper. This means, without denying the differences, raising some arguments that speak for the comparability with Central and Eastern Europe. The paper concludes with a short summary.

"Varieties of Capitalism" in the East

Scholars who work with the VoC approach either refer to the *qualitative* typology of market economies[1] that Peter A. Hall and David Soskice have offered in

[1] Hall and Soskice (2001) differentiate between a coordinated market economy and a liberal market economy, using four areas to create the typology, areas in which economic actors must coordinate their activities and which are differently structured by the corresponding institutions: a) company financing and control; b) cooperation between companies and the

their much-discussed article from 2001, or they adopt a *quantitative* design close to the one suggested by Peter A. Hall and Daniel W. Gingerich (2004). In this design, "strategic coordination" is presented on a linear continuum from low to high.

Clemens Buchen (2006) and Magnus Feldman (2006) were among the first to try to transfer VoC to Central and Eastern Europe using a qualitative research design based on maximum contrast. Taking as their starting point the dichotomy between liberal and coordinated market economies (Hall and Soskice 2001), they argue that only Estonia and Slovenia can in any clear way be classified as belonging to one or other category: Slovenia with a coordinated market economy (CME), and Estonia the clearest expression of a liberal market economy (LME), and even these two countries do not fit into the models in all respects. All other European countries lie somewhere in-between. But neither do they fit into the other "varieties" which have been developed in recent years in critique of the liberal vs. coordinated dichotomy. They do not match the "etatist capitalism" of France (Schmidt 2003) nor the "South European capitalism" (Amable 2003), which, like the new EU members, owes its primary comparative advantages to price competition. South European capitalism is characterized, however, by a traditionally high level of state intervention and continued high level of employment protection, at least for core workers, this latter element being protected by a marked and continued culture of street protest. At the same time, the differences between the individual countries in Central and Eastern Europe (CEE) are so great that it is difficult to speak of an overarching version of "post-transitional capitalism", even when one limits this to the new EU members. For the VoC approach, the existence of institutional hybrid is itself not a problem, given that it expressly foresees such cases. But what does the VoC approach have to offer in such cases?

While the qualitative research focuses mainly on the "most advanced" transition countries, scholars who measure using quantitative methods try to include a great number of post-communist countries and therefore apply the approach also to non-EU-member post-socialist states in Europe *and* the Commonwealth of Independent States (CIS). One of the most informative volumes on this subject is still that edited by David Lane and Martin Myant (2007).

The most obvious outcome of these endeavours are the contradicting classifications depending on which indicators are introduced to operationalise strate-

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creation of common standards; c) the regulation of labour relations c) the supply of required qualifications (skills). While coordinated market economies are marked in all of these areas by an ex-ante strategic coordination between economic actors, liberal market economies achieve coordination more through "arm's-length" market relations or hierarchies. In spite of the ideal-type comparison, Hall and Soskice classify individual Western countries by these types for the 1980's and 1990's. Thus Germany, Japan and the Scandinavian countries are considered as variants of coordinated market economies, while the USA appears as the prototype of the liberal market economy.

gic coordination (see table 1). Some scholars qualify Poland, Hungary, Slovakia, Bulgaria and Estonia as liberal, for example (cf. Knell and Srholec 2007), while others determine Slovenia, the Czech Republic, Hungary, and Poland as (more state-led) "continental type of market capitalism" (Lane 2007) that comes close to the coordinated market economies of Hall and Soskice. David Lane (2007) even disagrees with the widespread classification of Estonia as liberal, mainly because of its little developed capital market, which represents a crucial feature of liberal market economies. To some, Belarus appears to be a highly coordinated market economy, more coordinated than France or Germany, while others perceive the country simply as a state-economy (see table 1). Russia is often called a liberal market economy, while Lane premises much more precisely that it is a "hybrid" of state and uncoordinated market economies. Some scholars qualify Poland, Hungary, Slovakia, Bulgaria and Estonia as liberal, for example (cf. Knell and Srholec 2007), while others determine Slovenia, the Czech Republic, Hungary, and Poland as (more state-led) "continental type of market capitalism" (Lane 2007) that comes close to the coordinated market economies of Hall and Soskice. David Lane (2007) even disagrees with the widespread classification of Estonia as liberal, mainly because of its little developed capital market, which represents a crucial feature of liberal market economies. To some, Belarus appears to be a highly coordinated market economy, more coordinated than France or Germany, while others perceive the country simply as a state-economy (see table 1). Russia is often called a liberal market economy, while Lane premises much more precisely that it is a "hybrid" of state and uncoordinated market economies.

While the different operationalisation of the VoC approach in the quantitative and qualitative research designs explains part of the puzzling outcomes, there are serious theoretical problems that are hardly reflected in the attempts to adapt the VoC approach to Central and Eastern Europe. These problems refer to both research designs but in a different way and degree.

The first problem caused by this mode of model transfer is the ignorance of a basic assumption of the VoC theory, which was designed for the *developed* world of capitalism and not for *all* the existing versions of market economies. Hall und Soskice draw a limit first of all with membership of the OECD; but even the OECD member Mexico is explicitly excluded by them as unsuitable for their approach, "because it is still a developing nation" (Hall and Soskice 2001, 21).

Table 1: Collection of VoC typologies for Central and Eastern Europe based on quantitative indicators

Authors	Typologies	Indicators
Lane (2007)	**(more state-led) continental type of market capitalism:** Slovenia, Czech Republic, Hungary, Poland, Estonia **Hybrid state/market uncoordinated capitalism**: Ukraine, Georgia, Moldova, Russia **Etatist economies:** Belarus	Private sectors share of GDP, privatisation index, stock-market capitalisation and provision of credit, participation in global economy, income inequality
Knell and Srholec (2007)	**Strategic coordination:** Belarus, Ukraine, Slovenia, Croatia, Romanian, Czech Republic, Uzbekistan **(Liberal) market coordination**: Bulgaria, Georgia, Moldova, Poland, Slovakia, Hungary, Estonia, Russia	Coordination index: *social cohesion* (GINI, highest marginal personal income tax rate, government final consumption expenditure), *regulation of labour market* (World Bank criteria), *business regulation* (World Bank criteria for start ups, insolvency, property registration, stock market relative to banking sector in the financial system)
Cernat (2006)	**Anglo-Saxon**: Estonia **Continental:** Poland, Slovakia, Bulgaria, Latvia, Lithuania **Developmental state:** Hungary, Czech Republic, Slovenia But in most countries with a significant degree of institutional incoherence. While the cluster analyses also subsumed Romania to the **continental type**, the case study revealed Romania as a unfortunate sort of **cocktail capitalism** of the two models and the legacy of state-centred clientelistic capitalism during the 1990s	Dominant type of labour bargaining, state intervention, the role of the banking sector and financial institutions, degree of internal institutional coherence
Hall and Gingerich (2004)	**Liberal vs. coordinated** for developed market economies (west and south Europe, USA, Canada, Australia, New Zealand, Japan)	Coordination index: Minority shareholder rights, dispersion of control (by shareholders), size of stock market, level of wage coordination, labour turnover, degree of wage coordination

The conceptualisation of the VoC approach as a theory for most advanced modern capitalism rests on the underlying assumption of a rational state independent from economic actors, and vice versa. In the sociological system theory, this is coined as "functional differentiation" and as the existence of a Weberian bureaucratic state. Strategic coordination serves as a means to solve collective action problems in an open global economy beyond market and hierarchy, while the institutions of liberal economies force radical innovation through flexible capital and labour markets. Strategic coordination in advanced market economies as understood by the VoC approach has not much to do with state planned economies, nor with political corruption, clientelism, state capture and mafia-like networks. The comparative advantage that economic actors gain from the coordinated market economy is an advantage that – according to Hall and Soskice (2001) – companies use to specialize in international labour division and to compete on global markets. Although strategic coordination may also include some sorts of protection from world markets – and in fact does, if we consider, for example, the traditional cross ownership and interlocking directorships between German banks and big manufacturing companies[2] – rent-seeking is not a crucial advantage over competitors here. Without the limitations in the concept of coordinated market economy to advanced capitalism, one could raise vis-à-vis the VoC approach the same criticism as was once made to Robert Putnam: The "dark side" of social capital remains out of the spotlight.

The linear classification of the countries of Central and Eastern Europe conceals important differences in the relationship between economy and state and in the quality of statehood, in the sense of a rational-bureaucratic administration. In transformation research, clear limits are drawn on this point particularly between the Visegrad Four (Hungary, Czech Republic, Slovakia, and Poland) on the one hand and the post-socialist countries grouped together in the Community of Independent States (CIS) on the other, limits which disappear in the quantitative research model in particular. Thus, Lawrence P. Kind and Ivan Szelenyi (2005) describe Central Europe primarily *for this reason* as liberal systems, because here, during the transformation process, the formal-bureaucratic capacities of the administration were maintained and even strengthened (see also King 2007). By comparison, in the CIS states, patrimonial and neo-patrimonial systems were formed in which economy and state remain interwoven in clientelist networks. In short, the simple application of the VoC approach to the post-socialist world hides these fundamental differences rather than shedding light on them, precisely because the *quality* of the strategic coordination in these countries is not grasped by the formal indicators used by the approach (see table 1).

The second problem with a simple application of the VoC approach has to do with the influence on developing market economies of international actors: international economic organisations (IMF, World Bank); multinational corporations; and the European Union. Here also there is a considerable difference between Central Europe and other post-socialist countries. The focus, however,

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2 Until the reform of corporate law at end of the 1990s, the German state supported these national networks with tax incentives.

has shifted, in that what is now in question is the applicability of the varieties approach to the *advanced* market economies of the first EU accession wave.

On this issue, we must again distinguish between the consequences of the region's rapid integration in western transnational value-adding networks and the role of international organisations, in particular the EU, which are intimately connected. The VoC approach tends to treat the market economies and their national institutions as autonomous entities in international competition and in the international division of labour; and although the globalisation of the goods and financial markets is stressed as an important and far-reaching influence, the level of the national institutions is still considered decisive. This view of international competition is related to its limitation to developed market economies, which are the home countries of large multinational corporations as well as being their host countries, and do not compete in the world market primarily on the basis of low labour costs or raw materials. Their comparative advantage is based on knowledge-based and capital-intensive industries and branches, and for the products of which the world market is relatively open. The VoC approach therefore takes into account primarily countries with privileged market positions.

This is precisely where the critique by dependency and world-system theorists begins of the unreflective expansion of the VoC approach. With the application of this method to the market economies of Central Europe, a decisive commonality between these countries is lost to sight: since the end of the 1990's at the latest, in particular advanced Visegrad Four countries have adopted what was, at least until the financial crisis, a successful growth strategy, based on the continual inflow of western capital and which attracted above all the cost-motivated transfers of production facilities in technologically "mature" branches. Multinational corporations for the most part solve their financing problems without recourse to the indigenous financial institutions in the host countries and often bring their suppliers with them from their home countries.

Along with this goes the takeover of the banking sector in most of the new EU member states, which has led, here, to a level of transnationalisation which is extraordinary for the western variety of capitalism (including the Southern-European variety) (see the papers by Lane, Vliegenthart, Drahokoupil and Myant in this volume). A national interweaving of banks and industry, as was long characteristic of the German coordinated market economy (CME) and which seemed at first to be taking shape in the Czech Republic after the mass privatisation decided on by the Vaclav Klaus government, was then dissolved in the continued privatisation and internationalisation of the banking sector (cf. Windolf 1998; Myant 2003; Bluhm 2007).

On top of this comes the massive and ambivalent influence of the EU: it has *on the one hand* strengthened the rational-bureaucratic capacities of the accession states through the application of the Acqui Communitaire (Bruszt 2002;

Merkel 2007). It encourages Public-Private-Partnership relationships between economy and state in the Western model as well as social dialogue in labour relations (Iankova 2002; Bluhm 2007), which means the use of strategic coordination on the basis of a rational-bureaucratic state.

On the other hand, in its pressure for continued liberalisation of the market and privatisation of in particular the steel, telecom and banking sectors, it has driven rapid transnationalisation and considerably reduced the scope of action of national economic policy, and this even before the countries join the common currency (Grabbe 2006; Kutter and Trappmann 2006). This exacerbates a problem, which is a subject of discussion for West-European countries also, namely the increasing institutional incompleteness of the national level, in opposition to which the transnational governance regime is gaining in importance. But while in Western Europe this process is meeting with *established* systems of national institutions, and even the Southern European countries had long time spans in which to adapt before and after entry into the EU in the 1980's, the Europeanisation of Central and Eastern Europe is a part of the genesis of the very institutions in question. This development throws light on a further premise of the VoC approach: Hall and Soskice start from the assumption that national institutions remain decisive, in spite of globalisation and Europeanisation. The importance of national institutions for enterprise strategies is equally treated not as a variable, an object of research in itself, but as a constant. Unless the VoC approach is opened up to the multi-level analysis of strategic coordination, as has been already called for, it cannot grasp the specific conditions of the formation of national capitalisms in Central and Eastern Europe.[3]

The renaissance of dependency theories

The second direction in today's Central and Eastern Europe research more or less rejects the VoC approach, while distinguishing between three or four large blocs of countries – first round new EU-member states; Russia, Rumania and the CIS; and China and Vietnam. Scholars following this line of argumentation stress precisely the degree and mode of external pressure on the path towards market economies and focus on the relative position of the economies in the globalised world. In the European debate, the centre of interest is usually CEE, which has quickly become liberalised, privatised, and opened up to western investors. In this strand, one can distinguish between a more sociological argumentation and a more politico-economical one.

[3] On this debate, see Hancké, Rhodes and Thachter (2007), and Crouch and Voelzkow (2009).

The sociologists King and Szelenyi (2005) have coined the Central European type "capitalism from without" in contrast with "capitalism from above" (Russia, Rumania) and "capitalism from below" (China, Vietnam) focusing on a combination of transition path (shock vs. gradualism), elite constellation, capital inflow, the emergence of a domestic capitalist class and the relationship between state and private economy. In this respect, "capitalism from without" represents the liberal dependent type of capitalism with a relatively high elite turnover, high capital inflow, an export-oriented manufacturing sector dominated by multinational corporations, and with a state capable of providing "adequate public goods"; while the informal sector is medium (King and Szelenyi 2005; King 2007).

Other scholars such as David Lane and Arjan Vliegenthart in this volume refer to Wallerstein's world-system theory. Vliegenthart conceptualizes the "dependent market economy" of the Visegrad states as a specific variation of capitalism in addition to LME and CME, while Lane adapts Wallerstein's concept of core, peripheries and semi-peripheries to Central and Eastern Europe in a way that completely breaks with his own former attempts to test the VoC typology on post-socialist countries.

It is this connecting of national and transnational dynamics that is the strength of this approach. The dependency and world-system theory challenges the idea of an autonomous national-institution-building in CEE and points to the strong influence of transnational organisations, structures and actors. It explores the risks and limits of the foreign-led mode of enterprise modernisation and economic growth; hereby the different exposures to the recent financial crisis across the post-socialist world become visible. And the challenge is most telling there where the application of VoC seems to work best: in the most advanced new EU-member states. According to Lane, the new EU member states have become "dependent satellites" of the (still dominant) "hegemonic bloc" (USA, UK, Germany, Japan); in contrast, most of the CIS with continued high state ownership are not fully integrated into the world economic system, forming a new semi-periphery. Only Russia and China with their large domestic economic base have the potential to build a "countervailing power" (see more Lane and Vliegenthart in this volume).

However, the long-term consequences of foreign-led or dependent capitalism for CEE are not spelled out yet. Here, too, more research and theoretical work is needed. In my view, the current debate demonstrates a weakness in the approach in three points:

First, the dependency literature for CEE highlights the differences between the Visegrad Four, the Baltic states or Rumania and Bulgaria from the point of view of the nature and extent of the foreign direct investment (FDI) attracted. Therefore Arjan Vliegenthart limits his "dependent market economy" to Hungary, Poland, the Czech Republic and Slovakia.[4] At the same time, Lane in this volume makes it clear that the transnationalisation of the national economies of Bulgaria or Estonia is no less significant, and he counts them also among the "dependent satellites". While the Czech Republic and parts of Slovakia, Hungary and Poland have succeeded in attracting large scale direct investment in the area of industrial durable consumer goods, above all in the automobile industry, a very different type of investment and development underpins the high level of transnationalisation of Bulgaria and Estonia. Béla Greskovits (2005) has classified the countries' leading manufacturing sectors from the point of view of investment and export profiles (see also Bohle and Greskovits 2007b). According to this classification, Slovenia and the Visegrad Four have specialized in "heavy-complex" and "light-complex export industries", i.e. in branches that are either physical-and-human-capital-intensive (chemicals, machinery and equipment, road vehicles and transport equipment) or are characterized only by a relatively high human capital intensity (pharmaceuticals, office and data processing machines, electrical machinery, scientific equipment, optical goods, clocks). The automobile industry plays a central role; it has established a Central European production cluster that includes West and East Germany, the Czech Republic, parts of Slovakia, Central Hungary and Western Poland. This sector has observed a very rapid upgrading in the last ten years (cf. Jürgens and Krzywdzinski 2009), and there are few signs that the financial crisis will negatively affect the cluster in a lasting way. On the contrary, Opel wants to close a plant in Belgium, not in Poland.

By comparison with this, often the predominant industries in the Baltic states and Southern European countries are "heavy-basic" and "light-basic", which are either *only* capital intensive (physical capital intensive) (e.g. food, non ferrous metal, iron and steel) *or* else require either significant physical or human capital (e.g. wood, textile, clothing, furniture) (Greskovits 2005). Even if this division of labour cannot be considered stable, there is much in favour of Bob Hancké and Lucia Kurekova's conclusion that catching up will be very difficult, as "the initial wave of investment in CEE as a whole seems to have produced network externalities which imply that complex manufacturing in future is likely to locate where other companies with a similar profile are located" (2008, 21).

Michael Landesmann (2008, 28) from the Economic Institute in Vienna (WIIW) notes "hardly any deficit in high-technology or in high-skill industries" for the most advanced countries of the new EU Member States, while "for Bulgaria, Romania and some Baltic States such deficits still exist". And although deindustrialisation has been massive in all the countries, the Czech Republic, Slovakia, Hungary and Poland have suffered comparably less than

4 On the social costs, see in particular Bohle and Greskovits 2007a.

CIS countries or East Germany. Poland even managed to have a slight reindustrialisation in the most recent years.

In short, the difference in levels and types of dependency and transnationality among the new EU member states are so significant that it is highly unlikely that the countries share the same dynamic and lock-ins suggested by the dependency theory. Although dependency theorists are aware of these differences, their conceptual consequences have not yet been worked out.

Secondly, Jan Drahokoupil and Martin Myant show very clearly in their analysis (in this volume) how different the growth models were before the crisis among the CEE countries, and that, in spite of their generally high levels of exposure to the world market, the effects of the financial crisis vary greatly. According to this argument, it was not the transnationalisation of key industries including banks that in itself led to a particularly severe exposure to the crisis, but rather a specific interplay of growth, welfare state models and political decisions. While the Baltic states and Hungary were massively affected by the crisis, Poland is the only EU country that in 2009 can show a positive GDP, and the Czech Republic has come off a little better in 2009 than Germany.

Thirdly, with dependency theory, the analysis of institutions is too much of a background element. This is all the more surprising given that in economic development research the quality of the institutions is seen as of decisive importance. The securing of basic institutions such as property rights and contract law is seen as guaranteed in the advanced market economies of CEE – not least through the inflow of FDI and under pressure from the EU. Instead, the analysis of institutions is limited to arguments in support of the thesis of a wide-ranging conformity with the needs of foreign investors. Political and institutional idiosyncrasy, as well as differences in culture and industrial history, disappear as the "needs" of the investors appear uniform. Thus the provision of industrial "skills" by the state, for example, which, combined with the low wages, constitutes the decisive comparative advantage of "dependent market economies", is taken as a given. And yet the vocational training systems, in the Czech Republic, Hungary or Poland, have followed different paths since this activity was taken away from the former state enterprises, a difference which can be explained by the continued effectiveness of the respective industrial and institutional traditions of pre-1945. The influence of investors on this process was neither homogenous nor particularly decisive, because, among other things, the Western multinational corporations act differently depending on the institutional character stemming from their respective home countries.[5] Some-

[5] On the contradictory development of Poland and the Czech Republic, see Bluhm 2007. While in the Czech Republic the reform of the vocational training system to include companies had become an issue already at the end of the 1990's, in Poland the trend towards a strengthening of "medium-level qualifications" has only caught on in recent years. Before

thing similar can be shown regarding the form taken by the labour-relations system.

In a word, while the application of the VoC approach to CEE we have outlined allows the specific positioning of CEE in the international and European division of labour to go unrecognized, the dependency approach pushes into the background the analysis of the institutional conditions of action of enterprises (and the differences therein). It is exactly by so doing that it can work out the central commonalities of the advanced CEE countries. For the future dynamic and development of these market economies, it will, however, be of major importance to what extent, for example, the high level of industry-specific skills inherited from state socialism can be reproduced and whether systematically involving the transnational corporations in the cost of skills production will be successful. And it will be at least equally as important whether individual states will manage to bring forward an economics and innovations policy which can go beyond tax incentives and other advantages for foreign investors' large-scale projects.

How East Germany fits?

East Germany doesn't fit into this debate at all, at least at first sight. For the national-state level stands at the centre of the analyses of both theory strands. Moreover, a very different growth model had been in evidence here that worked at least for a few years after unification. Following a particularly rapid and profound collapse, came an externally induced economic recovery through German-internal state transfer payments, driven primarily by infrastructure projects and the construction sector. Once this model was exhausted, it led to massive overcapacity in this sector. The ensuing high unemployment figures disguised for a long time the slow recovery in the manufacturing sector (IWH 2009, 202). There are nevertheless some remarkable commonalities with the CEE countries, which relativise the particularity of the East German case. Moreover, the absence of autonomy for the national state throws up questions in the debate about varieties of capitalism in CEE, which have not yet been clearly articulated.

In my view, East Germany can be interpreted as an extreme case of the "dependent market economy", although one can hardly speak of "foreign-led" following German reunification. Yet, a closer look reveals quite similar features in its path to a market economy. Unification implied rapid market liberalisation and even quicker privatisation than in neighbouring countries, in which large companies only managed to survive as part of the global value

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that the education system had been strongly geared towards the encouragement of general academic skills.

chains of western multinationals. The “distinctive coordination mechanism” is marked here also by a high level of “dependence on intra-firm hierarchies within transnational enterprises” (Vliegenthart in this volume). Operations centres, with which large research centres are often still associated, are almost completely absent from East Germany.[6]

The ownership structure is, therefore, not so different from that of Hungary, the Czech Republic or Slovakia, although there might be less new wealth in East Germany. Here, too, most of the small and medium-sized enterprises (SMEs) are run by domestic owners who already had a management career prior to 1989 (Martens 2008; Bluhm and Martens 2010). In East Germany, manufacturing SMEs are even a central characteristic of the enterprise sector. While in the former West German states 56.2% of the turnover in the processing industry is from companies with more than 500 employees, which is unique in European context (Bluhm and Martens 2010), the large East German companies account for only 39.3% of total turnover, companies which are, as we have said, generally subsidiaries with headquarters outside the region (IFM 2004[7]).

The new East German states produce mostly intermediate goods, and so do not organise their markets themselves (IWH 2009, 22). Although exports have been rising for the past number of years, West Germany is still the main sales area for East German products and services. Therefore the export ratio is markedly lower than in most other new EU member states (ibid, 205). Approximately 80% of East German exports in the processing industry are accounted for by producers of intermediate goods and capital equipment, and are in fact concentrated in the branches that Greskovits (2005) has called “heavy-complex” and “light-complex export industries” (cf. Federal Statistical Office 2008).[8] When we include “exports” towards West German states, the ratio improves significantly. According to estimates from the Instituts für Wirtschaft Halle (IWH)[9], in 2008 two thirds of the turnover of enterprises located in East Germany was created in other regions (IWH 2009, 61).

The monetary union within Germany has to this day had the effect of a massive increase in labour costs in East Germany by comparison with other new EU members, while at the same time labour productivity lagged noticeably behind that of West Germany. This put the East Germans, in terms of wage unit

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6 And studies at the sectoral level indicate quite similar patterns of behavior of the parent companies in East German and Visegrad-Four subsidiaries, especially when these parent companies stem from the automobile sector and are located in West Germany (cf. Keune et al.).

7 Institute for Small and Medium-sized Business Research Bonn.

8 In spite of the strong expansion, the export ratio in the New East German states shortly before the crisis, measured by export of goods in relation to the GDP, at 22%, was only half as high as in the West German states (IWH 2009, 38).

9 Halle Institute for Economic Research.

costs, at a considerable price-competitive disadvantage in both directions – with a comparable availability of skilled employees. This cost disadvantage decreased with regard to the Visegrad Four up to 2006; but above all to West Germany. Since the year 2000, the state-supported modernisation of production equipment, pay-rate moderation on the part of employees, and the departure of East German SMEs from collective wage agreements, have, with other factors, led to a situation where the rise in labour costs has remained successively lower than the rate of growth in productivity. In this way wage-unit costs came to constitute a price advantage by comparison with the old West German states that remains the case today (ibid, 57). Like the Visegrad Four, East Germany competes as a newcomer in the western world markets and in the area of complex industrial goods with a combination of skilled work and, in comparison with Western European locations, low labour costs.[10] In 2008 the GDP per capita in East Germany, at slightly over 20,000 Euros (after purchasing power parity), was lower than that of Slovenia and just over that of the Czech Republic, with the second-highest GDP-share among the new EU members (EU-15 over 25,000 Euro) (ibid, 22).

With East Germany, however, it is the regional perspective that is most to the foreground, and it is this perspective which is most critically analysed in the debate on the VoC approach. The critique is made above all when the regional institutional solutions and coordination modes are of a different nature from what the national type would lead one to expect or when the national institutional level is weak. Thus, Crouch et al. (2009, 658) state: "Local specialisms that depart from the logic of a national system in this way suggest that the nation state is not necessarily always the most important level for determining the institutional environment of business."

Research on the transfer of institutions from West to East Germany comes to the clear conclusion that the new East German states deviate from the German post-war model in important areas. This is true not only for the corporate governance structure of the dependent large companies dominated by "intra-firm hierarchies".[11] Intensive research has been done above all on the system of collective wage bargaining, which in spite of the expansion of employers' associations and trade unions from West to East has largely lost its function and importance as a standardizing and regulating element. Among the reasons are, as in CEE, the "almost complete demobilisation of the working class"

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10 The proportion of the labour force in East Germany with a formal training qualification, is, due to the GDR legacy, and the high level of ethnic homogeneity, higher than in West Germany (71% as against 66%) (IWH 2009, 104).

11 In the financing of SMEs, the East-West difference in manufacturing SMEs is no longer of any great importance. The traditional bank loan is still the most important form of external financing in the West as well as in the East for this sector. However, the relationship between banks and SMEs has changed greatly in general in recent years (cf. Bluhm and Martens 2008).

(King 2007, 313), and employers' lack of interest in wage-rate agreements, but also the departure of East German SMEs from such agreements due to the explosion of labour costs after monetary union. With that, the employers' association (and indirectly also the unions) lost an organisational advantage they had over their CEE counterparts due to the transfer of existing West German associations and the support of the Treuhandanstalt (the organisation set up to aid in privatisation of state enterprises in East Germany between 1990 and 1994) that had advised their portfolio companies to join the employer' associations (cf. for example Artus 2001, Schmidt et al. 2003).

In the area of vocational training, the state took on a greater role in the 1990's than had been foreseen in the German dual system based only partly on state schools but also on a practical training share within companies which pay their apprentices a salary. For in this domain also the transfer of formal institutions did not guarantee its reproduction by the economic actors, in particular when these institutions relied on a high level of voluntary collective bargaining and corporatist coordination, as in the German version of the CME. The massive deindustrialisation on the one hand and the ready availability of highly qualified skilled employees for the remaining East German companies at a time of high unemployment led to a situation in the 1990s of a lack of training places, which the state tried to rectify with state-funded places outside the companies (cf. Grünert and Wieckert 2005).[12] At the same time, "institutional innovations" were taking place in the form of training associations (Ausbildungsverbünde), in which several companies share the practical side of the training and the costs; schools, communities and regional development agencies are also sometimes involved. Therefore such associations fell within the logic of the corporatist tradition of the German CME and they became also widespread in West German states (cf. Buss and Wittke 2006; Bluhm 1999).

But precisely since the institutions and arrangements of the German CME have undergone massive changes during the 1990s, in which the integration of East Germany can be seen as one driving force (cf. Streeck 1997), it is no longer possible to understand this development simply as a "deviation" from the West German institutional structure. Moreover, East Germany is far from being able to be treated as a single region. One can, in brief, say that the deindustrialisation of East Germany has almost completely destroyed the attempts, in the planned economy, to develop those regions which were traditionally relatively weakly industrialized. The present-day centres of industry in Thuringia, Saxony and Saxony-Anhalt are the traditional centres of industry from pre-1945, in which during state socialism modern industrial branches (e.g. electron-

[12] At present, the situation in the training market is changing so dramatically that because of the changes in demographics, the generational change within companies and the continuing emigration of young East Germans, a massive lack of skilled workers is expected and in some areas is already making itself felt (cf. Lutz and Wiekert, 2008).

ics) were also mostly located. Within this overall picture, the current region of Saxony-Anhalt was traditionally marked by the presence of predominantly large companies (chemicals and mechanical engineering), while Saxony and above all Thuringia were remarkable in pre-1945 in the high concentration of SMEs, which in the planned economy were administratively but not spatially integrated into larger combines (Kombinate) (cf. Bluhm 1999; 2000). This structure has been renewed on a smaller scale since 1990, and, as well as this, these states have been best able to attract investors due to the high concentration of industry, the well developed infrastructure in research and development, and the availability of qualified skilled employees. Therefore, in the southern East German states the number of companies is higher than in the other East German states, and yet the average firm size in these latter states is smaller than in, for example, Saxony-Anhalt (cf. table 2).[13] According to estimates from the IWH (2009, 148), in 2007 the cities of Chemnitz (14.5%) and Dresden (14.9%) held third and fourth place in the eight German cities with the highest rates of employment in processing industry. This proportion is just above that of Düsseldorf, Hamburg and Dortmund and only those of Stuttgart (22.4%) and Munich (19.3%) are markedly higher. Even if the importance of research-and-development-intensive branches is still low in Saxony and Thuringia, again there is a clear North-South divide.[14] Note also that the basis of East German R&D lies in SMEs (cf. table 2; Legler et al. 2004; Konzack et al. 2006).[15] The divide we have outlined here also has consequences for the strategic coordination of economic actors, visible above all in vocational training or in the membership of enterprise associations and in the creation of clusters. In Central and Eastern Europe these differences are presumably much starker, given that foreign investors, even in the Visegrad Four, limit their activities to a few regions, especially in Poland, Hungary and Slovakia, and that any internal balancing mechanisms between the regions are much less developed than in Germany. It is above all for the VoC approach that this raises questions of institutional heterogeneity, which is not easily reconciled with an emphasis on the level of national institutions. Thus, the relationship between supranational, national *and*

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13 Berlin is not included here.

14 However, Berlin accounts for around 40 % of the research and development personnel capacity of the East German economy, and is one of the most intensive research agglomerations in Germany (Legler et al. 2004, 8).

15 Konzack et al. (2006, 20-22) found that in East Germany in 2004 (excluding East Berlin), 73% of the R&D personnel and more then 80% of the R&D expenditures were located in the processing industry, mainly in Saxony, followed by Thuringia (though some way behind). While in West Germany 82.8% of the R&D personnel were employed in large companies (and 17.2% in SMEs), in East German states SMEs account for about 70% of the R&D staff (15,006 employees in absolute numbers) and almost 50% of the R&D expenditures (reference year 2005). Hence, the positive development rests markedly on the East German SMEs, mainly in Saxony, Thuringia and Saxony-Anhalt.

regional level of institution building and change in CEE needs to be further explored.

Table 2: Manufacturing industries in the German area states (Flächenländer), ordered by number of companies, 2007 (1998)

	Number of companies		Employees in thousands		Turnover in mio. €	Turnover in € per employee	Patents per 100,000 inhabitants	
NRW	10,076	(10,429)	1,287	(1,520)	351,258	282,407	43	(94)
Baden-W.	8,260	(8,857)	(1,245)	1,226	301,693	241,355	140	(105)
Bavaria	7,226	(8,294)	1,194	(1,189)	329,644	271,567	108	(97)
Lower Saxony	3,715	(4,215)	510	(560)	174,070	364,645	42	(38)
Hesse	2,917	(3,257)	411	(470)	100,719	248,789	44	(69)
Saxony	2,812	(2,656)	241	(211)	56,311	231,053	24	(23)
Rhineland-Pal.	2,093	(2,276)	280	(312)	80,002	286,699	31	(52)
Thuringia	1,737	(1,531)	151	(117)	29,340	188,800	26	(28)
Saxony-An.	1,394	(1,262)	122	(103)	37,581	306,074	15	(15)
Schleswig-Hol.	1,248	(1,483)	126	(143)	32,869	267,723	21	(24)
Branden-burg	978	(1,116)	89	(93)	21,989	249,878	14	(17)
Meck.-Po.	717	(556)	58	(44)	13,834	230,681	11	(12)
Saar	528	(527)	97	(107)	25,233	276,969	28	(27)

Source: Federal Statistical Office, German Patent Office (grey=New East German states)

Summary

At the latest, the EU accession of the most advanced CEE countries in 2004 marked the end of the transformation research that saw the region as separate from the dynamics in the West. The integration of the region into the debate on the varieties of capitalism has built a bridge between discourses which were previously separated, the consequences of which must still be teased out. The two research strands described here are the major approaches via which the CEE was integrated into this discussion the recent years. The first strand, with its application of the VoC approach, takes into account institutional variance in the new market economies. However, the institutional inconsistencies and historical particularities make any ordering into existing typologies difficult, no matter its level of complexity; the transfer of the VoC approach from a typology for the developed market economies to one for the real world of capitalism has not been sufficiently reflected upon, as regards either method or theory. The second group of authors more or less rejects this procedure, precisely because it disguises the overarching particularities of CEE by comparison with Western market economies, and because the attempt to apply the approach takes little account of the massive influence of external actors on the formation of institutions, and of the high levels of transnationalisation in the economy, in particular in the financial sector. The capitalism of the region is here considered primarily in categories of independence and centre-periphery, and the institutional analysis remains in the background. Both approaches thus demonstrate complementary strengths and weaknesses. Which of the two perspectives gains in importance in the future will depend largely on to what extent CEE can be considered as presenting a homogenous figure on the European "semi-periphery" in the long term. For Poland (the western region) and the Czech Republic, this is doubtful.

East Germany in the future will also not play an important role in this debate. But the comparison with CEE is nevertheless useful. On the one hand, this is because it shows that the problems in East Germany, in spite of Germany's particular history, its "Sonderweg", are quite similar. On the other hand, East Germany remains a fascinating case because it can be seen as a radical variant on the "dependent market economy". This form of world-market integration and the high costs of de-industrialisation have irreversibly reduced and changed East Germany's industrial capacities. Whether they have led to a dead-end in terms of economic development is still a more open question than one might suspect when looking at the many comparisons made with the southern Italian Mezzogiorno. This question must in any case be answered from a regionally differentiated perspective. The East German case shows, however, that in any focus on transnational companies, the development potential of the existing SMEs will be of decisive importance in CEE, and that the debate on theories of capitalism in this region must, when possible, pay more attention to them.

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